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# **Zero Hora - Editora Jornalística S.A.**

**Financial Statements at  
December 31, 2001 and 2000  
and March 31, 2002 and 2001  
and Report of Independent Accountants**

## Report of Independent Accountants

May 9, 2002

To the Board of Directors and Stockholders  
Zero Hora - Editora Jornalística S.A.

- 1 We have audited the accompanying balance sheets of Zero Hora - Editora Jornalística S.A. as of December 31, 2001 and 2000, and the related statements of operations, of changes in stockholders' equity (deficit) and of changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements.
- 2 We conducted our audits in accordance with Brazilian approved auditing standards which require that we perform the audit to obtain reasonable assurance about whether the financial statements are fairly presented in all material respects. Accordingly, our work included, among other procedures: (a) planning our audits taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the company, (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements, and (c) assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

May 9, 2002

Zero Hora - Editora Jornalística S.A.

- 3 As mentioned in Note 17 to the financial statements, the company decided to defer recognition of the foreign exchange loss for the quarter ended March 31, 1999 and the year ended December 31, 2001. Although permitted by Provisional Measure no. 1818 dated March 25, 1999, which was later converted into Law 9816 dated August 23, 1999, and by Provisional Measure no. 3 dated September 26, 2001, the deferred recognition is not in accordance with accounting principles generally accepted in Brazil, which require the recognition of exchange variations in the period in which they occur. As a consequence, the company's stockholders' equity as of December 31, 2001 and 2000 is overstated by R\$ 16,900 thousand and R\$ 12,890 thousand, respectively, and the losses for the years then ended are understated by R\$ 4,010 thousand and overstated by R\$ 12,441 thousand, respectively, net of the related tax effects.
- 4 In our opinion, except for the effects of the matter mentioned in paragraph 3, the financial statements audited by us present fairly, in all material respects, the financial position of Zero Hora - Editora Jornalística S.A. at December 31, 2001 and 2000, and the results of its operations, the changes in stockholders' equity and the changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in Brazil.
- 5 We have also reviewed the accompanying financial statements of Zero Hora - Editora Jornalística S.A. as of and for the quarters ended March 31, 2002 and 2001. These financial statements are the responsibility of the company's management.
- 6 We conducted our reviews in accordance with standards approved by the Institute of Independent Auditors of Brazil (IBRACON). A review consists, principally, of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters regarding the criteria used to prepare the financial statements. A review does not represent an audit conducted in accordance with Brazilian approved auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

May 9, 2002

Zero Hora - Editora Jornalística S.A.

- 7 As mentioned in paragraph 3 above and Note 17 to the financial statements, the company decided to defer recognition of the foreign exchange losses for the quarter ended March 31, 1999 and the year ended December 31, 2001. As a consequence, the company's stockholders' equity as of March 31, 2002 is overstated by R\$ 13,934 thousand, the stockholders' deficit as of March 31, 2001 is understated by R\$ 10,917 thousand, and the losses for the quarters ended March, 31, 2002 and 2001 are overstated by R\$ 2,966 thousand and R\$ 1,973 thousand, respectively, net of the related tax effects.
- 8 Based on our reviews, except for the effects of the matter mentioned in paragraph 7, we are not aware of any material modifications that should be made to the financial statements mentioned in paragraph 5 for them to be in conformity with accounting principles generally accepted in Brazil.



PricewaterhouseCoopers  
Auditores Independentes  
CRC 2SP000160/O-5 "S" RS



Carlos Alberto de Sousa  
Partner  
Contador CRC 1RJ056561/S-7 "S" RS

**Balance Sheet**  
**In thousands of Brazilian reais**

	December 31		March 31			December 31		March 31	
Assets	2001	2000	2002 (Unaudited)	2001 (Unaudited)	Liabilities and stockholders' equity (deficit)	2001	2000	2002 (Unaudited)	2001 (Unaudited)
Current assets					Current liabilities				
Cash and cash equivalents (Note 4)	36,952	28,977	38,067	13,441	Accounts payable	16,063	32,295	12,384	22,212
Accounts receivable					Trade (Note 9)		8,758		6,549
Trade	32,794	35,307	32,755	30,711	Group companies (Note 6)				
Group companies (Note 6)	6,572		2,649		Loans (Note 10)	149,279	120,043	147,486	135,487
Inventories (Note 5)	11,704	19,247	10,853	21,681	Salaries and social security contributions	11,030	9,143	7,290	8,094
Properties for sale	1,519	869	1,472	1,128	Provision for income taxes				
Other	7,251	6,303	9,716	6,628	Other taxes payable (Note 11)	1,321	6,308	1,456	5,364
					Commissions and bonuses payable	2,822	3,517	2,848	2,862
					Deferred subscription revenue	8,029	8,499	8,656	8,819
					Other	1,329	4,395	2,247	2,229
	96,792	90,703	95,512	73,589					
Long-term receivables						189,673	192,958	183,715	191,616
Deferred income taxes	21,941	13,637	22,777	20,883	Long-term liabilities				
Group companies (Note 6)	638	687	638	677	Trade accounts payable (Note 9)				
Judicial deposits and fiscal incentives	6,428	5,355	5,476	5,433	Loans (Note 10)	8,179	236		119
	29,007	19,679	28,891	26,993	Provision for income taxes	1,133	1,770	5,217	14,957
					Deferred income taxes	6,496	7,202	1,005	1,610
Permanent assets					Advance for future capital increase	511	550	511	542
Investments (Note 7)	33,744	5,297	33,705	5,297	Provision for contingencies (Note 15)	4,267	3,373	4,712	3,625
Property, plant and equipment (Note 8)	70,582	86,596	65,747	83,269					
Deferred charges (Note 17)	26,504	20,854	21,909	18,263		20,586	25,880	17,146	28,055
	130,830	112,747	121,361	106,829	Stockholders' equity (deficit) (Note 12)				
					Capital	9,223	7,057	9,223	7,057
					Capital reserve	67,502	2,322	67,502	2,322
					Revaluation reserve	17,351	28,307	14,612	25,568
					Accumulated losses	(47,706)	(33,395)	(46,434)	(47,207)
						46,370	4,291	44,903	(12,260)
Total assets	256,629	223,129	245,764	207,411	Total liabilities and stockholders' equity (deficit)	256,629	223,129	245,764	207,411

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# Zero Hora - Editora Jornalística S.A.

## Statement of Operations

In thousands of Brazilian reais, except per share data

	Years ended December 31		Quarters ended March 31	
	2001	2000	2002 (Unaudited)	2001 (Unaudited)
<b>Operating revenues</b>				
Advertising	85,991	91,112	19,256	19,208
Classified advertisements	57,389	60,215	13,679	12,985
Circulation	41,909	42,534	9,736	12,618
Subscriptions	61,584	55,148	15,397	15,594
Other	7,147	6,007	1,678	1,513
Taxes on revenues	(9,366)	(9,271)	(2,141)	(2,240)
	<u>244,654</u>	<u>245,745</u>	<u>57,605</u>	<u>59,678</u>
<b>Operating costs</b>				
Raw materials	(58,529)	(65,799)	(9,018)	(14,235)
Personnel	(31,629)	(30,896)	(7,261)	(7,263)
Depreciation	(21,985)	(21,776)	(5,307)	(5,485)
Royalties	(8,343)	(8,308)	(1,938)	(2,033)
Other	(8,494)	(11,462)	(2,112)	(2,102)
	<u>(128,980)</u>	<u>(138,241)</u>	<u>(25,636)</u>	<u>(31,118)</u>
<b>Gross profit</b>	<u>115,674</u>	<u>107,504</u>	<u>31,969</u>	<u>28,560</u>
<b>Operating income (expenses)</b>				
Selling	(92,175)	(107,193)	(20,923)	(24,290)
General and administrative	(34,060)	(48,011)	(7,982)	(9,949)
Financial income	4,631	14,589	2,110	1,375
Financial expenses (Note 13)	(24,722)	(47,084)	(7,192)	(20,251)
Other, net	(39)	(8)	(5)	22
	<u>(146,365)</u>	<u>(187,707)</u>	<u>(33,992)</u>	<u>(53,093)</u>
<b>Operating loss</b>	<u>(30,691)</u>	<u>(80,203)</u>	<u>(2,023)</u>	<u>(24,533)</u>
Equity in the income of affiliate (Note 7)		186		
Non-operating income (expenses), net	<u>(3,330)</u>	<u>(51)</u>	<u>279</u>	<u>736</u>
<b>Loss before taxes on income</b>	<u>(34,021)</u>	<u>(80,068)</u>	<u>(1,744)</u>	<u>(23,797)</u>
Social contribution	2,193	7,155	232	2,051
Income tax	<u>9,034</u>	<u>17,098</u>	<u>678</u>	<u>5,753</u>
<b>Loss</b>	<u>(22,794)</u>	<u>(55,815)</u>	<u>(834)</u>	<u>(15,993)</u>
<b>Loss per thousand shares at the end of the year/quarter - R\$</b>	<u>(3,211.00)</u>	<u>(11,232.39)</u>	<u>(117.49)</u>	<u>(3,218.48)</u>

The accompanying notes are an integral part of these financial statements.

# Zero Hora - Editora Jornalística S.A.

## Statement of Changes in Stockholders' Equity (Deficit) In thousands of Brazilian reais

	Capital reserves			Revenue		Retained earnings (accumulated losses)	Total
	Capital	Fiscal incentives	Share premium	Revaluation reserve	Legal reserve		
At January 1, 2000							
Capital increase (Note 7(b))	4,211	2,310		39,263	750	15,198	61,732
Fiscal incentive investments	2,846	12		(10,956)		10,956	2,846
Realization of revaluation reserve						(2,531)	(2,531)
Income taxes on realization of revaluation reserve (Note 14)						(1,953)	(1,953)
Reversal of income taxes on the price-level restatement of stockholders' equity accounts						(55,815)	(55,815)
Loss for the year					(750)	750	
Transfer from legal reserve to absorb accumulated losses							
At December 31, 2000	7,057	2,322	65,180	28,307		(33,395)	4,291
Capital increase (Note 12(a))	2,166			(10,956)		10,956	67,346
Realization of revaluation reserve						(2,531)	(2,531)
Income taxes on realization of revaluation reserve (Note 14)						58	58
Reversal of income taxes on the price-level restatement of stockholders' equity (deficit) accounts						(22,794)	(22,794)
Loss for the year							
At December 31, 2001	9,223	2,322	65,180	17,351		(47,706)	46,370



# Zero Hora - Editora Jornalística S.A.

## Statement of Changes in Stockholders' Equity (Deficit) In thousands of Brazilian reais

(continued)

	Capital reserves			Revenue reserve	Accumulated losses	Total
	Capital	Fiscal incentives	Share premium	Revaluation reserve	Legal reserve	
At January 1, 2001						
Realization of revaluation reserve (unaudited)	7,057	2,322		28,307 (2,739)	(33,395) 2,739 (633)	4,291 (633)
Income taxes on realization of revaluation reserve (unaudited) (Note 14)						
Reversal of income taxes on the price-level restatement of stockholders' equity (deficit) accounts (unaudited)					75 (15,993)	75 (15,993)
Loss for the period (unaudited)						
At March 31, 2001 (unaudited)	7,057	2,322		25,568	(47,207)	(12,260)
At January 1, 2002						
Realization of revaluation reserve (unaudited)	9,223	2,322	65,180	17,351 (2,739)	(47,706) 2,739 (633) (834)	46,370 (633) (834)
Income taxes on realization of revaluation reserve (unaudited) (Note 14)						
Loss for the period (unaudited)						
At March 31, 2002 (unaudited)	9,223	2,322	65,180	14,612	(46,434)	44,903

The accompanying notes are an integral part of these financial statements.

# Zero Hora - Editora Jornalística S.A.

## Statement of Changes in Financial Position In thousands of Brazilian reais

	Years ended December 31		Quarters ended March 31	
	2001	2000	2002 (Unaudited)	2001 (Unaudited)
<b>Financial resources were provided by:</b>				
Loss for the year/period	(22,794)	(55,815)	(834)	(15,993)
Expenses (income) not affecting working capital:				
Deferred and long-term provision for income taxes	(9,529)	(17,375)	(1,759)	(7,271)
Income taxes on realization of revaluation reserve	(2,531)	(2,531)	(633)	(633)
Provision for contingencies	894	(2,572)	445	252
Equity in the income of affiliate		(186)		
Provision for losses in investments	3,013			
Depreciation and amortization	39,818	39,705	9,821	8,477
Net book value of permanent asset disposals	1,834	2,839	362	
	10,705	(35,935)	7,402	(15,168)
Financial resources used in operations		35,935		15,168
Decrease in long-term receivables		1,089	952	
Increase in long-term liabilities				2,031
Increase (decrease) in advance for future capital increase	(39)	550		(8)
Share premium	65,180			
Capital increase	2,166	2,846		
<b>Total funds provided</b>	<b>78,012</b>	<b>4,485</b>	<b>8,354</b>	<b>2,023</b>
<b>Financial resources were used for:</b>				
Operations		35,935		15,168
Increase in long-term receivables	1,024			68
Investments	31,857	877		
Property, plant and equipment	5,860	11,732	714	2,158
Deferred charges	25,031	975		401
Decrease in long-term liabilities	4,866	5,720	2,962	
<b>Total funds used</b>	<b>68,638</b>	<b>55,239</b>	<b>3,676</b>	<b>17,795</b>
<b>Increase (decrease) in working capital</b>	<b>9,374</b>	<b>(50,754)</b>	<b>4,678</b>	<b>(15,772)</b>
<b>Current assets</b>				
At the end of the year/period	96,792	90,703	95,512	73,589
At the beginning of the year/period	90,703	111,530	96,792	90,703
	6,089	(20,827)	(1,280)	(17,114)
<b>Current liabilities</b>				
At the end of the year/period	189,673	192,958	183,715	191,616
At the beginning of the year/period	192,958	163,031	189,673	192,958
	(3,285)	29,927	(5,958)	(1,342)
<b>Increase (decrease) in working capital</b>	<b>9,374</b>	<b>(50,754)</b>	<b>4,678</b>	<b>(15,772)</b>

The accompanying notes are an integral part of these financial statements.

## **Zero Hora - Editora Jornalística S.A.**

### **Notes to the Financial Statements at December 31, 2001 and 2000 and March 31, 2002 and 2001 (Unaudited)**

**In thousands of Brazilian reais, unless otherwise stated**

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#### **1 Business**

The company is owned by three family groups and is operated, together with other companies, as one integrated unit, the Rede Brasil Sul - RBS. The company is located in Porto Alegre, in the State of Rio Grande do Sul, Brazil, and is engaged in newspaper publishing and distribution (Zero Hora and Diário Gaúcho newspapers in Porto Alegre; Diário Catarinense newspaper in Florianópolis and Jornal de Santa Catarina newspaper in Blumenau, both in the State of Santa Catarina).

The Rede Brasil Sul - RBS Group includes companies operating in newspaper publishing, television and radio broadcasting, real estate, insurance brokerage, travel agency and other activities.

The Brazilian Federal Constitution establishes that newspaper publishing companies may not have foreign shareholders, and Brazilian corporations may own a maximum of 30% of the capital, with no voting rights.

Income and expenses on transactions among the RBS Group companies are allocated among the companies that benefit from or incur the income and expenses using bases that may not necessarily be the same as those that would have been applied if the transactions had been made with unrelated parties.

On December 26, 1996, the company transferred all of its trademarks registered with the *Instituto Nacional de Propriedade Industrial - INPI* (National Industrial Patents Institute) to another RBS Group company, RBS Participações S.A., free of charge. RBS Participações S.A. has been collecting royalties on the company's net operating revenues, calculated at 3.5%.

## **Zero Hora - Editora Jornalística S.A.**

**Notes to the Financial Statements at December 31, 2001  
and 2000 and March 31, 2002 and 2001 (Unaudited)**  
In thousands of Brazilian reais, unless otherwise stated

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### **2 Presentation of the Financial Statements**

The accounting records of the company are maintained in accordance with Brazilian corporate and tax legislation, and the financial statements have been prepared therefrom, including certain adjustments to conform with accounting principles generally accepted in Brazil ("Brazilian GAAP"), which originally required the presentation of financial statements under the constant currency methodology, as a means of depicting more clearly the impacts of inflation on a company's financial information.

Under the constant currency methodology, all financial statement balances, including comparative balances from prior years, are presented in reais of constant purchasing power using as the basis for restatement the official index *Unidade Fiscal de Referência - UFIR* (Fiscal Unit of Reference) up to December 31, 1995 and the variation of the *Índice Geral de Preços - Mercado - IGP-M* (General Market Price Index) as from that date. The reported amounts of non-monetary assets, such as inventories and permanent assets, and stockholders' equity (deficit) include restatement as from the date of origin.

In 2001, Resolution 900 of the Federal Accountancy Council (CFC) established that the indexation of the accounts under the constant currency methodology should be suspended during periods of low inflation, i.e., when the cumulative inflation rate in a 36-month period is less than 100%. The company has therefore suspended the indexation in its financial statements as from September 30, 2001, and subsequent transactions are recorded at their historical amounts without indexation. Likewise, the comparative balances from prior years have been indexed to inflation only up to September 30, 2001.

The price-level restatement of financial statements for both statutory and tax purposes was abolished as from January 1, 1996, by Law 9249. Although the company's statutory accounting records as from January 1, 1996 do not reflect any price-level restatements of permanent assets and stockholders' equity (deficit) accounts, pro forma adjustments have been made to the financial statements to reflect these restatements through the constant currency methodology. These restatements no longer have any tax effects, but pro forma tax adjustments have been made to the financial statements to assure consistency with prior periods as well as to reflect future deferred tax effects, as explained in the following paragraph.

## **Zero Hora - Editora Jornalística S.A.**

### **Notes to the Financial Statements at December 31, 2001 and 2000 and March 31, 2002 and 2001 (Unaudited)**

**In thousands of Brazilian reais, unless otherwise stated**

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As from January 1, 1996, the full tax effect of the net restatement effect taken to income was recognized as a credit to income at the current tax rates, in order to maintain comparability with the prior periods. The deferred tax liability on the restatement of permanent assets has been shown as a long-term liability and is reversed to income as the restatement is realized through the disposal of investments and the depreciation or disposal of property, plant and equipment. On the other hand, the tax credit/debit arising from the restatement of stockholders' equity (deficit) accounts is reversed and charged to retained earnings since this amount does not represent an actual tax benefit (cost).

### **3 Significant Accounting Policies**

#### **(a) Determination of results of operations and current and long-term assets and liabilities**

Results of operations are determined on the accrual basis and include gains and losses on monetary items, the restatement of non-monetary items, the adjustment to present value of significant fixed-rate trade accounts receivable and payable and, where applicable, the effects of adjustments of assets to market or net realizable values. Except as described in Note 17, net exchange gains and losses on foreign currency liabilities are recorded in financial expenses.

Revenues from advertising and classified advertisements are recorded when published.

Revenue from circulation relates to sales of newspapers at newsstands and street vendors and is recorded at the time the newspapers are sold to consumers.

Subscription revenue relates to sales of newspapers by subscription. Deferred subscription revenue, which represents amounts billed to customers in advance of newspaper deliveries, is appropriated to revenues over the term of the subscription.

Non-cash exchanges of advertising for services or goods are recorded at market value, both in revenues and expenses.

#### **(b) Inventories**

Inventories are stated at the average purchase cost, which is lower than net realizable value.

## **Zero Hora - Editora Jornalística S.A.**

### **Notes to the Financial Statements at December 31, 2001 and 2000 and March 31, 2002 and 2001 (Unaudited)**

**In thousands of Brazilian reais, unless otherwise stated**

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#### **(c) Permanent assets**

The investments in minor associated companies shown in Note 7 are stated at cost.

Property, plant and equipment are stated at cost plus the effects of revaluations of major items of machinery and equipment (Note 8). Depreciation of property, plant and equipment is computed on the straight-line method, at the rates shown in Note 8, which take into consideration the estimated useful lives of the assets.

Deferred charges include mainly the foreign exchange losses for the quarter ended March 31, 1999 and the year ended December 31, 2001 (Note 17), which will be amortized over a four-year period, or recognized upon the payment of the related liabilities, or offset against future foreign exchange gains arising from these liabilities.

#### **(d) Income taxes**

Income tax is calculated at the standard rate plus supplementary rates totaling 25%. Social contribution tax is calculated at the current rate applied to adjusted income before income tax (12% from May 1, 1999 through January 31, 2000 and 9% from February 1, 2000 through December 31, 2002). Deferred income taxes are calculated on temporary differences and tax loss carryforwards. Tax losses do not expire but may be used to offset only up to 30% of future taxable income in any year.

#### **(e) Statements of operations, of changes in stockholders' equity (deficit) and of changes in financial position**

During periods in which the indexation of balances under the constant currency methodology is applicable (see Note 2), the amounts presented in these statements are indexed as from the month they are recorded and are adjusted by purchasing power gains and losses on monetary items.

## **Zero Hora - Editora Jornalística S.A.**

### **Notes to the Financial Statements at December 31, 2001 and 2000 and March 31, 2002 and 2001 (Unaudited)**

**In thousands of Brazilian reais, unless otherwise stated**

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#### **4 Cash and cash equivalents**

Cash and cash equivalents at December 31, 2001 include R\$ 36,726 (2000 - R\$ 28,907; March 31, 2002 - R\$ 37,920; March 31, 2001 - R\$ 13,297) of short-term investments.

#### **5 Inventories**

	<u>December 31</u>		<u>March 31</u>	
	<u>2001</u>	<u>2000</u>	<u>2002</u>	<u>2001</u>
			(Unaudited)	(Unaudited)
Newsprint	3,759	13,461	3,078	10,042
Maintenance materials	5,577	5,192	5,307	4,669
Fascicles (inserts), video-cassette tapes and compact discs (CD)	672	3,092	715	2,211
Provision for losses	(462)	(2,498)	(462)	(1,593)
Imports in transit (newsprint)	<u>2,158</u>		<u>2,215</u>	<u>6,352</u>
	<u>11,704</u>	<u>19,247</u>	<u>10,853</u>	<u>21,681</u>

# Zero Hora - Editora Jornalística S.A.

Notes to the Financial Statements at December 31, 2001 and 2000 and March 31, 2002 and 2001 (Unaudited)  
In thousands of Brazilian reais, unless otherwise stated

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## Related Party Transactions and Balances

	December 31				March 31			
	2001		2000		2002		2001	
	Assets (liabilities)	Income (expenses)	Assets (liabilities)	Income (expenses)	Assets (liabilities) (Unaudited)	Income (expenses) (Unaudited)	Assets (liabilities) (Unaudited)	Income (expenses) (Unaudited)
RBS Administração e Cobranças Ltda. Accounts receivable (payable) - Group companies	6,424		2,055		2,495		4,353	
Televisão Gaúcha S.A. Accounts receivable (payable) - Group companies	(48)		(39)		(26)		(74)	
Empresa Jornalística Pioneiro S.A. Accounts receivable (payable) - Group companies	40		31		29			
Long-term receivables - Group companies (advance for future capital increase)	638		687		638		677	
Caboparís Participações S.A. Financial income				1,199				
Rádio Gaúcha S.A. Accounts receivable (payable) - Group companies		(50)		(1,081)			(1,091)	(17)
Financial expense								
RBS TV de Florianópolis S.A. Accounts receivable (payable) - Group companies		(363)		(7,874)			(7,952)	(125)
Financial expense								
RBS Participações S.A. Accounts receivable (payable) - Group companies	(756)		(782)	736	(726)		(727)	
Financial income								



# Zero Hora - Editora Jornalística S.A.

## Notes to the Financial Statements at December 31, 2001 and 2000 and March 31, 2002 and 2001 (Unaudited) In thousands of Brazilian reais, unless otherwise stated

	December 31		March 31	
	2001	2000	2002	2001
Televisão Intimbuí S.A.				
Accounts receivable (payable) - Group companies				
Financial expense	(15)	(336)		(5)
Rádio e TV Caxias S.A.				
Accounts receivable (payable) - Group companies	(37)	(808)		(13)
Financial expense				
Rádio e TV Umbu Ltda.				
Accounts receivable (payable) - Group companies	(13)	(275)		(4)
Financial expense				
TV Coligadas de Santa Catarina S.A.				
Accounts receivable (payable) - Group companies	(25)	(572)		(10)
Financial expense				
RBS Marketing e Informática Ltda.				
Accounts receivable (payable) - Group companies	778	838	778	825
RBS Corretora de Seguros Ltda.				
Accounts receivable (payable) - Group companies	93		95	
Other RBS Group companies				
Accounts receivable (payable) - Group companies	41	85	4	128
Other accounts receivable				
General and administrative (reimbursement)	(9)			
Financial expense				(2)
Stockholders				
Advance for future capital increase	(511)	(550)	(511)	(542)
		16		

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- (a) RBS Administração e Cobranças Ltda. is a group company which functions as a treasury department, carrying out all collections and making all payments on behalf of the companies of the RBS Group. The balances with this company bear no interest and are shown in current assets because the funds held by this company on behalf of the group companies are readily available.
- (b) Loans to and from other related companies bear interest calculated at market rates. Advances for future capital increase bear no interest.
- (c) The company, together with the other three main media companies of the RBS Group, has guaranteed the first and second tranches, amounting to US\$ 50,000,000 and US\$ 125,000,000, respectively, of a US\$ 200,000,000 Global Medium-Term Notes Program issued by RBS Participações S.A. in December 1995 and in March 1997, with final maturity in 2003 and 2007. In connection with this Program, the company is required to observe certain negative covenants. All of these covenants are being observed.
- (d) The company is also guarantor of Televisão Gaúcha S.A.'s lease agreement in the amount of US\$ 769,450 at December 31, 2001 (2000 - US\$ 2,068,988; March 31, 2002 - US\$ 649,769; March 31, 2001 - R\$ 1,949,307) with final maturity in September 2002.

## 7 Investments

	December 31		March 31	
	2001	2000	2002	2001
			(Unaudited)	(Unaudited)
Globo Cabo S.A.	31,753		31,753	
Provision for losses	(3,013)		(3,013)	
Other investments	5,004	5,297	4,965	5,297
	<u>33,744</u>	<u>5,297</u>	<u>33,705</u>	<u>5,297</u>

- (a) The investment in Globo Cabo S.A. consists of 35,481,517 preferred shares, representing approximately 1% of Globo Cabo S.A.'s total capital, acquired on August 24, 2001 from RBS Participações S.A. for R\$ 31,753. This investment is stated at cost, less provision to adjust to market value.

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Globo Cabo S.A. is a holding company for several subsidiary companies which operate cable and microwave TV systems in the main Brazilian cities.

- (b) At December 31, 1999, the company held a 30% interest in Jornal de Santa Catarina S.A. (JSC), recorded under the cost method.

On August 16, 2000, the stockholders of the company and of JSC decided to unify the operations of the two companies by merging JSC into the company. The incorporation was based on an appraisal carried out by independent experts, as follows:

	<b>July 31, 2000</b>
Assets	7,485
Stockholders' equity	4,065

As a result of this transaction, the company recorded a gain of R\$ 186 from the difference between the carrying value of the investment (cost method) and the company's share of JSC's stockholders' equity.

The company issued new shares in the amount of R\$ 2,846 as payment for the 70% interest acquired.

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**8 Property, Plant and Equipment**

	December 31		March 31		Annual depreciation rates - %
	2001	2000	2002	2001	
	Cost and revaluation	Accumulated depreciation	Net	Net (Unaudited)	
Land	128		94	128	
Buildings and structures	17,504	9,956	7,692	7,424	4 to 10
Installations	9,659	7,727	2,314	1,807	10
Machinery and equipment	191,902	137,599	70,175	50,646	10 to 40
Vehicles	2,049	1,518	671	461	20 to 33
Other	6,168	28	5,650	5,281	
	227,410	156,828	86,596	65,747	
				83,269	

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On December 31, 1994 the company decided to revalue the major items of machinery and equipment based on an appraisal carried out by independent experts. Deferred tax effects on the revaluation increment are recorded upon realization of the reserve (Note 14).

On December 31, 1999 the company decided to revalue the printing presses and accessories, purchased during the preceding three years, based on an appraisal carried out by independent experts. For tax purposes the revaluation increment was considered as realized, and the tax effects were fully recorded on this date in the 1999 statement of operations, together with the tax effects arising from the normal operations.

The details of this revaluation can be shown as following:

Replacement cost	48,670
Original cost, net of depreciation	<u>(26,775)</u>
Revaluation recorded	<u>21,895</u>
Income tax and social contribution recorded in 1999	<u>7,225</u>

#### **9 Trade Accounts Payable**

Trade accounts payable at December 31, 2001 include R\$ 8,585 (2000 - R\$ 26,734; March 31, 2002 - R\$ 6,854; March 31, 2001 - R\$ 18,941) payable to foreign suppliers and indexed to the U.S. dollar.

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#### 10 Loans

	Interest	December 31		March 31	
		2001	2000	2002 (Unaudited)	2001 (Unaudited)
Foreign currency					
US\$ 67,771 thousand					
(2000 - US\$ 62,984					
thousand; March 31, 2002 -	LIBOR plus				
US\$ 65,621 thousand;	0.5% to 3.4%				
March 31, 2001 -	p.a. and				
US\$ 65,439 thousand)	8.6% p.a.	157,255	132,585	152,477	150,161
Local currency		203	267	226	283
		157,458	132,852	152,703	150,444
Current liabilities		(149,279)	(120,043)	(147,486)	(135,487)
Long-term liabilities		8,179	12,809	5,217	14,957
Long-term loans fall due as follows:					
2002			5,388		4,902
2003		5,939	5,388	2,974	7,840
2004		2,240	2,033	2,243	2,215
		8,179	12,809	5,217	14,957

Loans are guaranteed by Maiojama Empreendimentos Imobiliários Ltda., a related company, and by Televisão Gaúcha S.A.

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### 11 Other Taxes Payable

Balances include tax debts refinanced by the company under the *Programa de Recuperação Fiscal - REFIS* (Fiscal Recovery Program) launched by the Federal Government in April 2000, and which includes the option of using existing tax credits. The company decided to apply for this program, as permitted by Federal Law. As a consequence, the total federal tax debts, after being offset by accumulated tax credits acquired from third parties, were reduced by R\$ 3,085, recorded as non-operating income, and were fully paid in 2001.

The due date to apply for this program was extended, and in August 2000 the company made an additional application to include some pending tax claims against the company amounting to R\$ 8,430, which were partially settled with income tax losses and social contribution tax losses in the amounts of R\$ 2,944 and R\$ 1,526, respectively. The remaining balance was fully paid in 2001.

### 12 Stockholders' Equity

- (a) Capital comprises common and preferred shares with a par value of R\$ 1.00 (one real):

	December 31		March 31	
	2001	2000	2002 (Unaudited)	2001 (Unaudited)
Common shares	4,969,112	4,969,112	4,969,112	4,969,112
Preferred shares	2,129,619		2,129,619	
	<u>7,098,731</u>	<u>4,969,112</u>	<u>7,098,731</u>	<u>4,969,112</u>

The stockholders are entitled to an annual dividend of not less than 25% of net income per the statutory financial statements, after appropriation to the legal reserve of an amount equivalent to 5% of the annual net income, up to the limit of 20% of capital, also per the statutory financial statements.

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On August 24, 2001, the shareholders authorized another RBS Group company to subscribe 30% of the capital of the company in the amount of R\$ 67,346, including a premium over book value of R\$ 65,180.

- (b) Law 9249 introduced as from 1996 an option for companies to calculate a nominal interest charge on capital invested and utilized in operations for the period (defined as total stockholders' equity less revaluation reserves) calculated on a pro rata basis based on the *Taxa de Juros de Longo Prazo - TJLP* (long-term interest rate). This charge, limited to 50% of the net income for the period or of retained earnings, is deductible for income tax purposes and social contribution, but is subject to 15% withholding tax; such interest amounts may be used to increase capital or be paid directly to stockholders either as interest or as prepayment of the minimum statutory dividend.
- (c) The balance of accumulated losses in the company's statutory financial statements is reconciled to the balances in these financial statements as follows:

	December 31		March 31	
	2001	2000	2002 (Unaudited)	2001 (Unaudited)
Balances per statutory financial statements	(46,672)	(49,868)	(45,021)	(70,602)
Restatement of initial balances		(3,816)		(4,345)
Adjustments arising from the constant currency accounting methodology	9,068	11,033	8,275	11,490
Further adjustments to conform the financial statements to accounting principles generally accepted in Brazil	(10,102)	9,256	(9,688)	16,250
Balances in these financial statements	<u>(47,706)</u>	<u>(33,395)</u>	<u>(46,434)</u>	<u>(47,207)</u>



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#### **13 Financial Expenses - Bank Loans**

Financial expenses include R\$ 12,424 (2000 - R\$ 12,936; March 31, 2002 - R\$ 2,239; March 31, 2001 - R\$ 2,861) of interest and a loss of R\$ 687 (including R\$ 17,832 referring to the amortization of deferred charges (see Note 17))(2000 - R\$ 21,919 loss (including R\$ 27,538 referring to the amortization of deferred charges (see Note 17)); March 31, 2002 - R\$ 4,117 (including R\$ 3,950 referring to the amortization of deferred charges (see Note 17)); March 31, 2001 - R\$ 14,074 (including R\$ 2,448 referring to the amortization of deferred charges (see Note 17)) from monetary variations on bank loans. The monetary variation amounts consider the differences between the exchange variations on foreign currency loans and the inflation indices used to prepare the constant currency financial statements. Allocation of monetary gains and losses is subject to estimates made by management.

#### **14 Deferred Tax on Revaluation Reserve**

Accounting principles generally accepted in Brazil require the recognition of deferred tax liabilities on revaluations recorded as from July 1, 1995. This requirement was not applicable at the time the company recorded the revaluation of certain machinery and equipment in December 1994; the related unrecognized deferred income tax liability at December 31, 2001 amounts to R\$ 807 (2000 - R\$ 3,338; March 31, 2002 - R\$ 174; March 31, 2001 - R\$ 2,705).

#### **15 Contingencies**

- (a) The company is party to various civil lawsuits that have arisen in the ordinary course of its business, including actions for libel. Based on the opinion of the in-house legal counsel, management does not believe that any litigation pending against the company will have a material adverse effect on its business or financial condition.
- (b) The company is the defendant in certain labor and tax suits. Provisions for estimated probable losses from contingencies have been recorded based on the opinions of external and in-house legal advisors.

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### **16 Pension Fund**

The companies in the RBS Group (the "Sponsors") have formed RBS Prev-Sociedade Previdenciária, a private pension fund (the "Fund"), to provide employees with supplementary pension and disability benefits, in addition to those paid by the National Social Security System. The Fund was approved by the Ministry of Social Security in October 1996 and was implemented as from January 1997.

The Fund is a defined contribution plan, with contributions from Sponsors and participants calculated based on variable amounts and percentages at the option of each participant. The normal contributions of the Sponsors are calculated on the basic contribution of the participants at rates of up to 300% depending on the participant's age. Past service benefits will be funded by the Sponsors over twenty years through monthly payments adjusted by the *Índice Nacional de Preços ao Consumidor - INPC* (National Consumer Price Index). These contributions will automatically cease when the participant terminates employment for any reason, reaches retirement age, dies or becomes disabled.

Furthermore, the Sponsors may opt to make additional contributions at any time, and the normal and additional contributions may be revised by the participants and Sponsors in February of each year. The Sponsors may also temporarily reduce or suspend their contributions, maintaining only those necessary to cover the benefits already accrued to the participants or their beneficiaries.

The sponsors do not have any responsibility to guarantee the minimum level of the benefits to the participants when they terminate their employment.

The company's contributions in the year ended December 31, 2001 amounted to R\$ 1,450 (2000 - R\$ 1,331; March 31, 2002 - R\$ 334; March 31, 2001 - R\$ 362).

The Fund's financial statements at December 31, 2001 and 2000 were examined by independent accountants, and the actuarial reserves were determined by an actuary. The independent accountants issued unqualified opinions on those financial statements.

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### **17 Deferred Charges**

In 1999, the company decided to defer recognition of the R\$ 47,347 foreign exchange loss for the quarter ended March 31, 1999, as permitted by Provisional Measure no. 1818 dated March 25, 1999, which was later converted into Law 9816 dated August 23, 1999, and Deliberation CVM no. 294 dated March 26, 1999. As of December 31, 2001, the exchange loss deferred by the company amounts to R\$ 7,573 (2000 - R\$ 19,531; March 31, 2002 - R\$ 4,583; March 31, 2001 - R\$ 16,541), net of the related amortization.

In 2001, the company decided to defer recognition of the R\$ 24,044 foreign exchange loss for the year ended December 31, 2001, as permitted by Provisional Measure no. 3 dated September 21, 2001. As of December 31, 2001, the exchange loss deferred by the company amounts to R\$ 18,033 (March 31, 2002 - R\$ 16,529), net of the related amortization.

### **18 Subsequent event**

On April 18, 2002, the stockholders of the company and of Empresa Jornalística Pioneiro S.A. (Pioneiro) decided to unify the operations of the two companies by merging Pioneiro into the company. The company previously held a 9.31% interest in Pioneiro, recorded under the cost method.

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